



The ADVISOR

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Legislative Update

By Lindy Julian Beale, Legislative Counsel

The 2012 Legislative Regular Session is coming to an end. The good news is that no legislation has passed that will have any detrimental impact on the RSA. As of this writing, there are several bills the RSA supports that are close to final passage:

- HB 255, sponsored by Representative Jay Love, has been amended to include members of both the ERS and TRS and will allow retirement contributions on overtime pay with a cap of 120% of base pay.
- SB 213, sponsored by Senator Arthur Orr, requires teachers and state employees convicted of a felony offense related to their public position to forfeit their right to retirement benefits.
- SB 388, sponsored by Senator Arthur Orr, creates a Tier 2 retirement plan for all new employees hired after January 1, 2013.

The General Fund budget was passed by the House and cut state agencies by 20% or more. Substantial changes are expected in the Senate. The Education Trust Fund budget is pending in the Senate.

Due to passage of legislation after the *Advisor* was printed, please visit our website at www.rsa-al.gov and click on Current Legislation for the current status of legislation affecting RSA members. ■

CHAOS This Fall

By David G. Bronner

I know it does little good to repeat the simple facts that Alabamians pay the least amount of state taxes in the country, and if we paid just what the good folks in Mississippi paid in taxes, Alabama would have an additional \$1.2 billion in revenue. But to know that we are facing a true train wreck in the funding of state government services come October 1 – and remain silent – is not leadership.

In some of the past administrations, it was obvious that certain political leaders did not understand that a “firing squad” should be a straight line and not a circle. The state agencies funded by the General Fund cannot handle an additional 20% or more in cuts without devastating state services and its reputation.

I urge Governor Bentley’s cabinet to make the governor and the Legislature fully aware of what these cuts would do to their agencies, just as Dr. Williamson is doing with the proposed 30% cuts in Medicaid.

Everyone clearly wants the most efficient and least costly state government possible. However, we cannot allow our great progress of the last fifteen years to be washed away because we are afraid to tell our citizens that without some revenue relief Alabama cannot compete – much less succeed – in the future. ■

RSA Partners with SiO2 Medical Products

By David G. Bronner

The RSA is very excited about the opportunity to partner with CV Holdings, LLC President Bobby Abrams in a new \$90 million facility in Auburn. This will add up to 300 new high-paying, high-tech jobs for Lee County with tremendous growth opportunities. The RSA would like to thank Auburn Mayor Bill Ham, Auburn Economic Development Director Phillip Dunlap, Speaker of the House Mike Hubbard, and Governor Robert Bentley for their support in making this project possible.

The RSA is investing up to \$78 million in the construction of a prefilled syringe

production facility located in Auburn, Alabama. The facility will utilize innovative technology developed by the company for the biological drugs industry. The loan will be secured by the 37 patents and other intellectual property covering the company’s developments, a pledge of stock, and all other assets of the company. The interest rate is 8% and the company will pay the RSA a success fee upon maturity of the loan. The success fee will be 22% of the average daily outstanding balance of the loan for each year the loan is outstanding.

The SiO2 Medical Products project will revolutionize the delivery of certain medicines by glass injection moldings to patients on a global scale. The patented product is a major breakthrough in healthcare and will supply innovative products for the biological drugs industry. This project is one that will be recognized worldwide and that Alabama needs to continue to recruit.

The RSA has worked with Mr. Abrams and the team for just over two years to bring this project to fruition and construction is already underway, with an expected completion date in 14 months. ■

Global Oil

Source: I3D Research

While peak oil remains a substantial and imminent threat to the international economy—whose effects have only recently been felt—the availability of exports is the more pressing concern, as the world depends on just 27 net exporting countries to supply its oil requirements. Unfortunately, *only four of these 27 countries have any significant expansion potential in the years ahead.* Of the 197 countries in the world, 166 were oil importers in 2000, but by 2010 this number had risen to 170 as four oil exporters became oil importers.

The latest *BP Statistical Review* shows there were 31 net oil exporters in 2000 with a combined production of 58.0 million bpd and net exports of 40.8 million bpd. Between 2005 and 2010, net exports declined by 2.75 million bpd and declined further in 2011. This loss of available exports has been the real driver of the oil price increases experienced between 2005 and 2010, aside from the economic collapse in 2008 to 2009. Between 2005 and 2010, only ten countries recorded increases in their net exports and the volumes involved were generally small.

Almost incredibly, although Saudi Arabia has massively increased production over the last

year, net exports in the first quarter of 2012 were actually lower than in 2005 owing to the 1 million bpd growth in internal consumption over the period. Similar considerations apply to the other large Middle East producers.

Saudi Oil Minister Ali al-Naimi has been reassuring oil buyers that the kingdom still has 2.5 million bpd of spare capacity it is prepared to use in the event of any Iranian cut-off in supplies. Considerable doubts remain as Saudi has never produced at over 10.2 million bpd and this spare capacity, if it really exists, essentially represents all of the world's spare capacity.

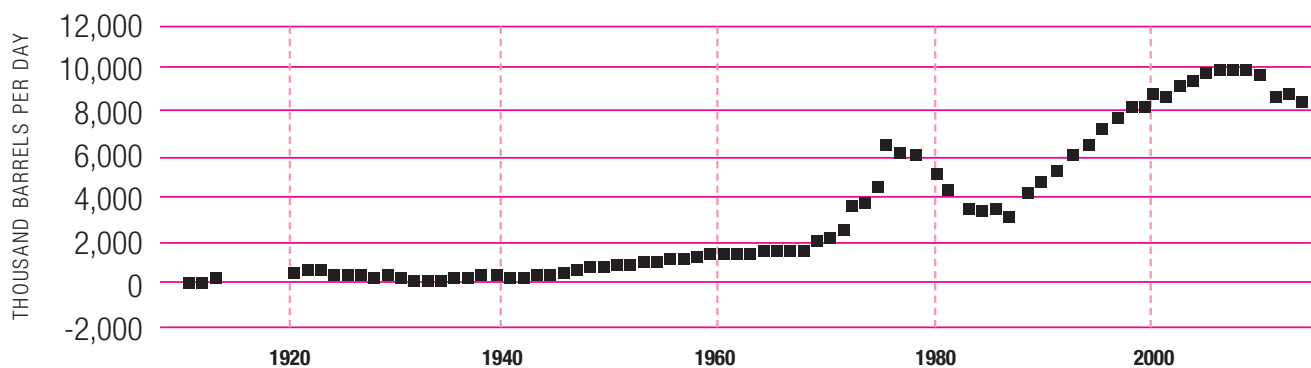
By focusing on net exports it becomes very clear that even in the oil producing countries that have the potential to expand their volumes, depletion and increasing local demand (often stimulated by fuel subsidies) will pre-empt much of the output growth. For example, Brazil may have significant sub-salt production potential, but, *for the next few years at least, high decline rates in the early Campos Basin fields and rapid consumption growth ensure that Brazil will remain a net oil importer.* At the moment it is little recognized, but history is likely to record 2005 as the key year in oil industry history for three reasons:

“crude-only” supply peaked and has been on bumpy plateau ever since; global net exports peaked and have since declined steadily and oil prices moved decisively higher in real terms and also moved past the range in which they had traded for most of the past 100 years.

For the time being at least, many developed economies have been able to cope with triple-digit oil prices. As we have stated before, it is the speed with which oil prices increase—which affects the timing of the adjustment mechanism—that will have a greater impact on growth. *A sharp upward move to \$150 or \$200 a barrel in a matter of weeks would have a more deleterious impact than a gradual move spread out over many months or even years.*

Contrary to emerging popular wisdom, the U.S. is still a net importer of crude oil, to the tune of almost 9 million bpd in 2011. Even though the U.S. successfully transitioned away from oil use in electricity generation and made huge gains in automotive fleet mileage in the late 1970s and early 1980s, *net imports of crude oil—even after recent declines—are still well above their peak from the last major oil crisis more than three decades ago*, as shown in the following chart. ■

ANNUAL U.S. NET IMPORTS OF CRUDE OIL



Source: U.S. Energy Information Administration

Editorial: *Montgomery Advertiser*

Although they sound almost contradictory, the following two statements about Alabama taxes in comparison to the rest of the nation are both true: State and local tax rates for

Alabamians are among the lowest in the nation. The income tax rate for working Alabamians at the national poverty level are the highest in the nation.

It is unconscionable for Alabama to

charge the highest income tax rate on working families living at the federal poverty level. But that is made much more reprehensible by the fact that Alabama overall has some of the lowest taxes in the

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nation. That means that the state's working poor are bearing a much, much higher burden of the cost of public services than the state's higher income residents.

According to a report released last week by the Center on Budget and Policy Priorities, a family of four making \$23,018 owed \$548 in Alabama income taxes. Only 15 states levy state income taxes on families making less than the federal poverty level. A similar family in Georgia would pay \$273 and a Mississippi family would pay \$103.

This is nothing new. For years now, Alabama has had the nation's highest income tax for a two-parent family of four at the poverty line in 2011.

Kimble Forrister, executive director of the Alabama Citizens' Policy Project, said: "Low- and middle-income families in Alabama are paying more income taxes

because the state has chosen to keep taxes low for the rich instead."

And it isn't just income taxes that hit the working poor hard. Alabama also relies heavily on sales taxes, which impact low- and middle-income taxpayers harder than those with higher incomes. And Alabama applies its sales taxes to groceries, which also compounds the pressure on low-income families.

The Institute on Taxation & Economic Policy reports that the bottom 80 percent of taxpayers in Alabama, who earn up to \$78,000 a year, pay twice the percentage of their incomes in state and local taxes as the top 1 percent of income earners.

According to the institute, the top 1 percent of income earners — who have an average yearly income of more than \$1 million — pay 4.8 percent of that income in state and local taxes. That com-

pares with the lowest 20 percent of earners (with average incomes of \$10,400), who pay 10.2 percent. The second lowest 20 percent (with average incomes of \$21,000) pay 10.5 percent; the middle 20 percent (average income \$34,600) pay 9.5 percent; and the fourth 20 percent (average income \$59,300) pay 8.2 percent of their incomes in state and local taxes.

Because of its low average state and local tax burden, Alabama underfunds many state programs. But because of the inequities in how that burden is spread, the working poor and the middle class bear a much larger share of the load than they should.

That unfair distribution of the state's tax burden is an issue that Alabama's elected officials should address. ■



An epic Southern fried golf road trip

By Steve Blount, BBC Travel – London, England

Golf: it is not just a pastime, it is a disease. Why do we crave this thing that bedevils, frustrates and humiliates us so? Leave the analysis to sports shrinks — the only springtime cure is to grab your bag and hit a course you have not played before. But instead of one new course, how about 32?

That is 468 holes, back to back, in 11 different clubs, pitting your game against golf's most prolific and arguably greatest architect. The Robert Trent Jones Golf Trail in Alabama, with no more than a couple of hours of open road between courses, is the ultimate golf road trip. It would take several weeks to play all 32 courses, but the seven courses I visited are clustered within a short drive of Birmingham, and fit perfectly into a long weekend.

This year marks the 20th anniversary of the opening of the Trail, one of Trent's masterworks and still the single largest course-building project ever undertaken.

The Trail's history

In the 1980s, the director of Alabama's public employee pension fund came up with a preposterous idea. He thought the fund should build public golf courses at 11 sites across Alabama and a single renowned architect — Robert Trent Jones, Sr. — would design them. These golf courses would create jobs, boost the state's tourism and help attract industry.

There were a lot of doubters. But a funny thing happened on the way to the 19th hole: the idea actually worked. Since the Trail opened, the state's tourism receipts have increased ten fold and the Trail's half a million visitors from around the world is tied for first place among tourism destinations in the state. Accolades have continued to flow for two decades — The *New York Times* called the Trail "some of the best public golf on earth" — while an almost Hajj-like mystique has grown up around it.

Designed near the end of Jones' career, the Trail courses are a "greatest hits" collection of varied landscapes and challenges. At the sites in the northern part of the state, players walk along high bluffs overlooking the Tennessee River or on courses that look like the Scottish Highlands. Near Mobile Bay in the south, they play among towering oaks and magnolias on a course that looks like Augusta National. Some are parkland style with plenty of trees and broad, rolling greens while others have tight greens peppered with treacherous pot-hole bunkers. Whatever your strength as a golfer, Jones tests it repeatedly on these courses. And whatever your weakness, he will find them.

During his 60-year career, Robert Trent Jones, Sr. designed or redesigned more than 500 golf courses in the US,

Europe and Asia. The US Open has been held on Robert Trent Jones courses nearly two dozen times, including in 2011 and 2012. Born in England in 1906, Jones came to America as a child. He became a talented amateur golfer and a club professional, but health problems prevented him from competing as a pro. He enrolled at Cornell University, creating his own course of study, and began designing golf courses while still a student. His big break came when golf legend Bobby Jones (no relation) asked him to help design the Peachtree Golf Club in Atlanta. He is famous for challenging golfers to make smart, precise shots which earned him a devilish reputation among Professional Golfers Association (PGA) pros.

The Trail's courses have many of Jones' signature traps and tricks, but he thoughtfully provided as many as 12 tee box options on some holes, set at a variety of distances and angles from the fairway to let players choose their level of difficulty.

A quick four-day road trip will give you a taste of Jones' genius, and the Trail is one of the best values in golf, with greens fees averaging about \$50 and discount packages available at www.rtgolf.com. (Editor's note: The author goes on to describe his stops in Birmingham, Opelika, and Prattville.) ■

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Water & Products

Source: 13D Research

Increasing water scarcity in many parts of the world is driving growth in “virtual water” trade. Many water-poor nations increasingly import water-intensive commodities, such as grain and electronics, which are produced elsewhere as a means of conserving domestic water supplies, according to a recent study. Virtual water trade happens via import/export of a wide variety of products because water is used in the manufacture of virtually all products. For instance, on a given day, a person likely wears over 15,000 liters (4,000 gallons) worth of water, because it takes 2,700 liters of water to make a cotton shirt and 9,800 liters to make a pair of blue jeans. *Overall, 22% of global water consumed is “virtual water” imported across international borders, and will be an important mechanism for mitigating spreading drought in many regions.* ■

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